



IDA15 MID-TERM REVIEW

IDA's Exceptional Allocation: A Review of the Implementation Experience with Lengthened Phase Out

**International Development Association
IDA Resource Mobilization Department (CFPIR)**

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Abbreviations and Acronyms

AfDB	African Development Bank
CAR	Central African Republic
CPIA	Country Policy and Institutional Assessment
DPO	Development policy operation
DRC	Democratic Republic of Congo
FSP	Fragile States Paper
FY	Fiscal year
GDP	Gross domestic product
GNI	Gross national income
IDA	International Development Association
IEG	Independent Evaluation Group
MGD	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MTR	Mid-Term Review
OPCS	Operations Policy and Country Services
PBA	Performance-Based Allocation
PCPI	Post Conflict Performance Indicators
SDR	Special Drawing Right

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EXECUTIVE SUMMARY

i. During the IDA15 replenishment, IDA Deputies requested “that IDA’s role in fragile states be addressed as one of the three special themes for the replenishment”. In response, Management prepared a paper entitled “Operational Approaches and Financing in Fragile States” (referred to as the *Fragile States Paper*), which proposed to strengthen IDA’s support to fragile states both operationally as well as in terms of financing. From the perspective of IDA financing, Management suggested and Deputies agreed to areas for improvement with respect to the two carefully ring-fenced exceptions to the Performance Based Allocation (PBA) system—the post conflict and re-engaging countries exceptional allocations.

ii. **The specific changes to the exceptional post-conflict and re-engagement allocations were:** (i) to lengthen the phase out period of post conflict allocations from three to six years for a total period of ten years of exceptional allocations; (ii) to extend the phasing out for re-engaging countries from one to three years for a total of five years of exceptional allocations. IDA Deputies requested an update at the IDA15 Mid-term Review on the “implementation experience with lengthened phase out for post-conflict and reengagement allocations”, and this paper responds to that request. The assessment of the implementation experience is organized into: (i) a financial update of the lengthened phase out in view of the changes in the underlying assumptions since the preparation of the *Fragile States Paper*, and (ii) an assessment of the operational impact for the countries concerned.

Updated Financial Impact of the Lengthened Phase Out

iii. **The extension of the phase out is significant not only because allocations have increased at the country level but also because without the extension, 9 out of 12 countries would no longer have continued to receive the exceptional allocations.** Only three countries – Cote d’Ivoire, Liberia and Togo—would have continued to receive special allocation during IDA15. The rest of the countries would have graduated either at the end of IDA14 (Burundi, Congo Republic, and Eritrea) or at some point during IDA15 (Angola, Democratic Republic of Congo, and Haiti in FY09; and Afghanistan in FY10). With the lengthened phase out, nine post-conflict countries-- Afghanistan, Angola, Burundi, Cote d'Ivoire, Democratic Republic of Congo, Republic of Congo, Eritrea, Liberia, and Timor-Leste --and all three re-engaging countries-- Haiti, Central African Republic, and Togo--have continued to receive exceptional allocations in the first half of IDA15.

iv. **The updated financial impact assessment shows that post-conflict and re-engaging countries are projected to receive around 8 percent of total IDA allocations during the IDA15 period.** Within the group, while post conflict countries are projected to receive 50 percent higher than what they would have received during IDA15 had the IDA14 phasing out arrangement been kept in place, the re-engaging countries are estimated to receive more than double what they would have received under the IDA14 phasing out arrangement. Furthermore, the update shows that:

- Overall, the financial impact of the lengthened phase out is in the order of SDR 457 million for the post conflict countries, SDR 442 million for new entrants to the post conflict window, and SDR 102 million for the re-engaging countries – which is broadly in line with what was projected in the *Fragile States Paper*.
- At the country level, IDA allocations are projected to increase during IDA15 by between 19-82 percent *compared to the shorter IDA14 phasing out* (and after accounting for the IDA15 envelope increase). The lengthened phase out has therefore been instrumental in significantly increasing the country allocations of post conflict and re-engaging countries.

Operational Impact of the Lengthened Phase Out

v. **Operationally, reflecting the increased country allocations, IDA lending commitments in post-conflict and re-engaging countries have increased.** Comparing the first two years of IDA15 (FY09-10) with the first two years of IDA14 (FY06-07), the data show that IDA lending commitments have increased by about 24 percent. A further breakdown of these commitments by sector shows that investments have increased in agriculture, energy and mining, transportation, water and sanitation, and to a lesser extent finance and trade. The higher investments in agriculture and energy appear to be linked to the efforts to respond to the impact of the 2005-08 food and energy crises. In addition to increased financing, IDA has continued to support post-conflict and re-engaging countries in knowledge work, donor coordination, and in bringing about greater strategic coherence in their development assistance.

vi. **The review also demonstrates that financial absorption in post-conflict and re-engaging countries —as measured by the percent of undisbursed balances in total country portfolio-- has been as good as the average for all IDA countries.** Overall, the average share of DPOs in total annual commitment during FY06-09 was slightly higher at 29 percent for post-conflict and reengaging countries, compared to 23 percent for all IDA countries. However, excluding arrears clearance operations which are delivered in the form of DPOs, the share of DPOs in these countries is much more modest at 18 percent and lower than the average for IDA countries. Within the post conflict group, disbursement rates have been relatively high in the large countries (such as Democratic Republic of Congo and Afghanistan), in part because these countries have had a high share of development policy operations (DPOs) in their total annual commitments. In contrast, some of the small post conflict and reengaging countries with young portfolios (e.g., Togo, Liberia, and Haiti) have among the lowest disbursement ratios (highest undisbursed balances) of all IDA countries.

vii. **Similarly, a review of the portfolio quality shows that post conflict and re-engaging countries have a comparable share of actual problem projects with the IDA average, although their share of projects at risk is much higher.** The percent of actual problem projects in post-conflict and re-engaging countries, at 14.3 percent, has been comparable to the total IDA average at 14.4 percent. However, the percent of projects at risk, defined as including both actual and potential problem projects, has been much higher in post conflict and re-engaging countries, at around 40 percent, than that of the total IDA average at about 20 percent. This could be, in part, attributable to consideration given to country circumstances rather than project

specific issues. Within the portfolio, there are several examples of successful projects that are having concrete impact on the ground.

viii. **A closer examination of how the additional financing associated with the lengthened phase out is utilized at the country level shows that the funds have been used for emergency response and/or to fund vital public services.** A review of Central African Republic shows that the additional funds have been used to respond to the impact of the global crises, in particular the energy crisis (“Power Emergency Response Project), as well as to support the provision of a safety net for the most vulnerable groups (“Support to Vulnerable Groups Community Development Project”). Similarly, in Haiti, IDA’s recent support through the lengthened phase out has supplemented critical operations such as the Community Driven Development Project, the Emergency School Reconstruction Project, Strengthening of Agriculture Public Services Project, and the additional financing for the Electricity Loss Reduction Project. These operations have supported investment, capacity building, and the restoration of basic public services.

ix. **Overall, the review shows that the lengthened phase out system put in place to support post-conflict and reengaging countries has so far functioned well:** country allocations have been higher because of the lengthened phase out; the countries are absorbing the additional funds relatively well (disbursements are as good as in other IDA countries); and, perhaps most importantly, the additional funds have allowed the countries to respond to the ongoing global crises, in particular the recent food, fuel, and financial crises. Still, given the daunting development challenges post-conflict and re-engaging countries are facing, there is obviously a need to continue to ensure that financial arrangements in place would support these countries effectively. Future efforts in the context of IDA16 may thus explore a number of outstanding issues including: (i) revisiting the eligibility criteria for post-conflict and re-engagement countries; and, (ii) continuing to assess the experience with phasing out and graduation from the special windows in order to suggest modification and improvements to the window as warranted.

I. INTRODUCTION

1. During the IDA15 replenishment, IDA Deputies requested “that IDA’s role in fragile states be addressed as one of the three special themes for the replenishment”.¹ In response to that request, Management prepared a paper entitled: “Operational Approaches and Financing in Fragile States”² (henceforth referred to as the *Fragile States Paper, or FSP*.) From an operational perspective, IDA Deputies requested that Management continue to strengthen IDA’s support to fragile states, with the key objectives of supporting state building and peace building activities.³ From the perspective of IDA financing, Management suggested and Deputies agreed to areas for improvement with respect to the two carefully ring-fenced exceptions to the Performance Based Allocation (PBA) system—the post conflict and re-engaging countries exceptional allocations-- agreed to in past replenishments.⁴

2. **With respect to post conflict allocations, Management suggested and Deputies agreed to lengthen the phase out period of exceptional post conflict allocations from three to six years for a total period of ten years of exceptional allocations.** Countries emerging from conflict have received exceptional IDA allocation since IDA13 in order to support their reconstruction needs. While the total length of support until IDA15 was seven years, with four years of full exceptional allocations and three years of phasing down to the PBA level, the total duration of exceptional allocations for post conflict countries was extended up to ten years during the IDA15 replenishment. For the first four of the ten years, countries receive exceptional allocations that are roughly twice the allocations received by all IDA countries (around SDR 6 per capita).⁵ During the remaining six years, the exceptional allocations are progressively phased down such that the countries would return to allocations they would have received as per the PBA by the start of the eleventh year.

3. **With respect to re-engaging countries – defined as those that did not experience severe conflict but were disengaged from IDA for a prolonged period of time—IDA Deputies agreed to Management’s suggestion to extend the phasing out from one to three years for a total of five years of exceptional allocations.** This would smoothen the sharp drops in allocation in the final years. While re-engagement allocations have been in place since IDA14, the total duration of support during the IDA14 was three years (with two years of full allocation

¹ See IDA, 2007, “IDA15 Replenishment Priorities: Proposed Special Themes”, IDA Resource Mobilization Department, February.

² See IDA, 2007, “Operational Approaches and Financing in Fragile States”, Operational Policy and Country Services (OPCS) and Resource Mobilization Department (FRM), June.

³ IDA15 MTR progress report on the operational side is presented separately. Please see “IDA’s Support to Fragile and Conflict-affected Countries: Progress Report 2007-09”, Operational Policy and Country Services, IDA15 Mid-term Review Paper.

⁴ From the IDA financing perspective, fragile states are grouped into four categories: (i) countries receiving allocations based on IDA’s PBA system; (ii) countries receiving exceptional post-conflict allocations; (iii) countries receiving exceptional allocations upon re-engaging with IDA after a prolonged period of inactivity but which did not qualify for post-conflict assistance; and (iv) countries that do not receive IDA financing because they are in arrears on IDA repayments (also referred to as “non-accrual countries”).

⁵ Excluding India and Pakistan, whose allocations are capped, and which therefore receive significantly lower per capita allocation than implied by the PBA.

and one year of phasing down to the PBA level). In IDA15, this support was extended to up to five years, with two years of full allocation and a gradual phasing down to their PBA allocations over the last three years.

4. **Other changes made to the exceptional post-conflict and reengagement allocations during the IDA15 replenishment included:** (i) “linking the share of post-conflict allocations in overall allocations to changes in the overall replenishment size”;⁶ and (ii) tightening the existing review process for Post Conflict Performance Indicators (PCPI) by appointing an external panel to review the PCPI in preparation for public disclosure. As agreed, the post-conflict and reengagement allocations have been linked to the overall IDA15 replenishment size beginning with the FY09 allocations, resulting in about 21 percent increase in the resource envelope of post conflict and reengaging countries. Furthermore, the PCPI review has been completed as agreed, and a separate status report is being presented at the IDA15 Mid-term Review for Deputies’ review.⁷

5. **IDA Deputies requested an update at the IDA15 Mid-term Review on the “implementation experience with lengthened phase out for post-conflict and reengagement allocations.”**⁸ **This paper responds to that request.** The rest of the paper is organized as follows. Section II reviews the implementation experience with the lengthened phasing out in two respects. First, it updates the financial impact of the lengthened support, namely the increase in IDA15 financial support to the post conflict and re-engaging countries relative to the IDA14 arrangement where the phasing out period was shorter. Second, it briefly reviews the operational and development impact of the increased resources from the perspective of lending commitments, diagnostic and knowledge work, absorption and trends in disbursement and project examples of impacts on the ground. Section III provides conclusions, and outlines key emerging issues going forward.

II. IMPLEMENTATION EXPERIENCE WITH LENGTHENED PHASE OUT

6. When the post-conflict window was set up in IDA13, it was envisaged to provide a total of five years of exceptional allocations, with two years of phase out to normal PBA allocations. At the IDA13 Mid-Term Review, the duration of exceptional allocations was increased to seven years, including three years of phase out to normal PBA allocations.⁹ This extension was based on research¹⁰ that pointed to the desirability of providing exceptional post-conflict assistance over a longer period of time. The eligibility criteria for allocation are presented in Box 1.

⁶ See IDA, 2008, “Additions to IDA Resources: Fifteenth Replenishment”, February, p. 52

⁷ See “Post-Conflict Performance Indicators: External Panel Review”, Report of a panel of external experts convened to review the methodology and process of the World Bank’s Post-Conflict Performance Indicators, March 2009.

⁸ See IDA, 2008, “Additions to IDA Resources: Fifteenth Replenishment”, February, p. 52

⁹ IDA (2003). “*IDA’s Performance Based Allocation System: Current and Emerging Issues.*”

¹⁰ World Bank (2003). “*Breaking the Conflict Trap: Civil War and Development Policy.*”

7. **For the first four of the seven years, post-conflict countries received roughly twice the average per capita allocation of regular IDA countries** (around SDR 6 per capita per annum), and much higher than allocations implied by their performance, as measured by the country policy and institutional assessment (CPIA) and country portfolio ratings. During the remaining three years, exceptional allocations were gradually phased down to the levels determined by IDA's PBA formula, with the post-conflict premium (calculated as a difference between allocations computed using the PCPI and those computed using the PBA formula) reduced proportionally by a third each year.

Box 1. Eligibility Criteria for Post-conflict and Re-engagement Allocations

Eligibility criteria for post-conflict allocation. For a country to be eligible for exceptional post-conflict allocation, it must have experienced a recent, intense conflict as measured by one of the following: (a) extent of human casualties directly or indirectly caused by the conflict, or (b) proportion of population that is either internally displaced or in exile, and/or (c) extent of physical destruction. Impact must be judged high against any *one* of these indicators for a country to qualify for exceptional post-conflict allocation. Eligibility for exceptional post-conflict allocations is assessed subsequent to decision to re-engage. The **timing of re-engagement** depends on four conditions (World Bank Operational Policy 2.30): (i) sufficient reduction of conflict to allow implementation of IDA-supported activities; (ii) reasonable expectation of continued stability, (iii) presence of an effective Government counterpart; and (iv) evidence of strong international cooperation.

Eligibility criteria for re-engagement allocation. Eligibility criteria for exceptional allocations under the re-engagement window include: (i) evidence of partial collapse of the state, but ineligibility for IDA post-conflict assistance; (ii) existence of a strong transition plan supported by concerted donor support; and (iii) disengagement from IDA for a *prolonged period* and accumulation of *sizeable* arrears to the World Bank Group. With respect to the timing of re-engagement, as with post-conflict countries, all relevant World Bank policies would apply and eligibility is not automatic.

8. **However, country experiences suggested that the three-year phase-out period during IDA14 resulted in a relatively sharp drop-off in IDA allocations, which was disruptive to country programs.** In addition, emerging research also suggested that exceptional post-conflict allocations should be provided for around ten years to increase the chances of reinforcing economic recovery in these countries.¹¹ In light of this, management proposed, and IDA Deputies agreed, to extend the duration of exceptional allocations up to ten years by doubling the phase-out period from three to six years. Similarly, the phasing out for re-engaging countries was extended from one to three years.

A. Updated Financial Impact of the Lengthened Phase out

9. **Currently, nine post-conflict countries and three re-engaging countries receive exceptional allocations.** The post-conflict countries include: Afghanistan, Angola, Burundi, Cote d'Ivoire, Democratic Republic of Congo, Republic of Congo, Eritrea, Liberia, and Timor-Leste. These countries receive IDA allocations for 10 years (including 6 years of phase out to

¹¹ For example, Collier and Hoeffler (2003) argue in their paper "*Aid, Policy and Growth in Post-Conflict Societies*" that "...the pattern of aid disbursements should probably rise during the first four years and gradually taper back to normal levels by the end of the first *post-conflict decade* [emphasis added]."

normal performance-based allocations). The re-engaging countries are: Haiti, Central African Republic, and Togo. Table 1 summarizes the duration of support and the year of phasing out for these countries.

10. **It is important to note that, had the IDA14 phasing out system been in place, only three countries – Cote d’Ivoire, Liberia and Togo—would have continued to receive the exceptional allocations during IDA15.** The rest of the countries would have graduated either at the end of IDA14 (Burundi, Congo Republic, and Eritrea) or at some point during IDA15 (Angola, Democratic Republic of Congo, and Haiti in FY09; and Afghanistan in FY10). The extension of the phasing out has obviously been key in keeping these countries within the special allocation windows, allowing them to continue to access additional IDA resources.

Table 1. Post conflict and re-engaging countries exceptional allocation: Year of support and phasing out

<i>Country</i>	Year of Exceptional Allocation				First FY of PBA allocation
	FY2008	FY2009	FY2010	FY2011	
Post-conflict countries					
Afghanistan	5	6	7	8	2014
Angola	6	7	8	9	2013
Burundi	6	7	8	9	2013
Congo, DR	6	7	8	9	2013
Congo, Rep.	7	8	9	10	2012
Cote d’Ivoire	1	2	3	4	2018
Eritrea	7	8	9	10	2012
Liberia	1	2	3	4	2018
Timor-Leste	6	7	8	9	2013
Re-engagement countries					
CAR	2	3	4	5	2012
Haiti 1/	4	4	5	0	2011
Togo	1	2	3	4	2013

Source: IDA Resource Mobilization Department, CFPIR.

^{1/} Haiti’s phasing down in FY09 was kept as in FY08 because of the difficult economic circumstances, including devastating tropical storms.

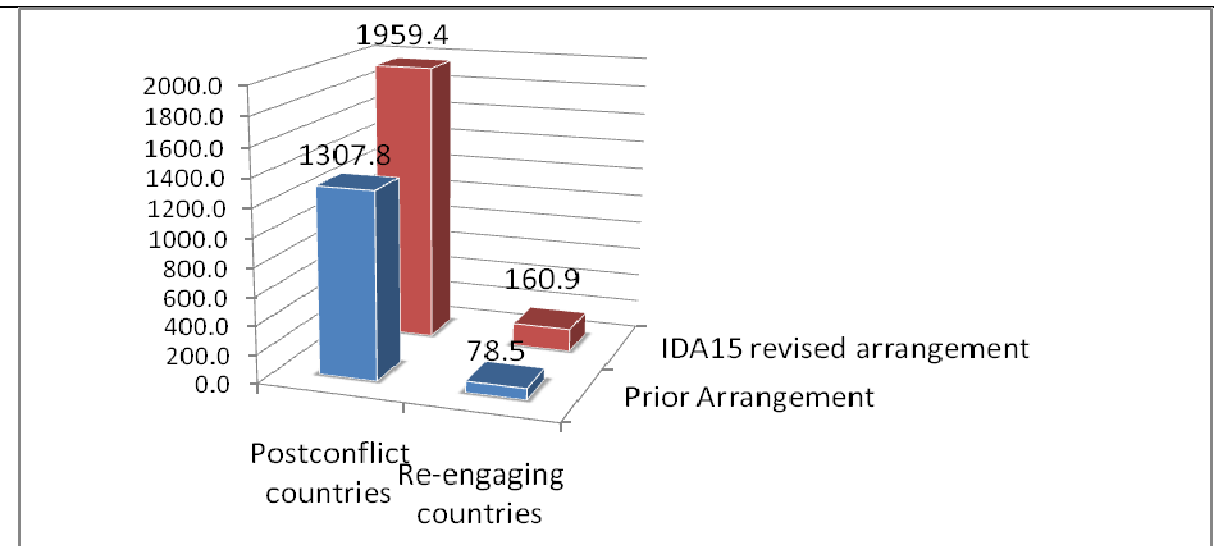
11. **How much more support are countries receiving relative to the IDA14 arrangement?** The *Fragile States Paper* estimated the financial impact of the lengthened phase out as being in the order of SDR 430 million for the post conflict countries, SDR 430 million for new entrants to the post conflict window, and SDR 110 million for the re-engaging countries.¹² These estimates were based on the assumptions that: (i) the IDA15 envelope would be equivalent in nominal terms to the IDA14 envelope; and that (ii) post conflict countries’ performance would remain constant.

12. **However, given that there have been changes both in the underlying assumption about IDA resources as well as country performance since the FSP, an updated financial impact was prepared.** The key facts and assumptions underpinning the updated financial analysis are: (i) the actual increases in IDA15 resources, of about 21 percent in country allocable

¹² See IDA, 2007, “Operational Approaches and Financing in Fragile States”, Operational Policy and Country Services (OPCS) and Resource Mobilization Department (FRM), pp. 32-33.

resources over IDA14; (ii) the post-conflict and reengagement envelopes being linked to the IDA15 envelope; and (iii) post-conflict and reengaging countries maintaining the same relative performance as in FY10, on the basis of which their FY11 indicative allocations are derived. The FSP assumed that either Sudan or Zimbabwe would re-engage during IDA15, but the two countries remain in non-accrual status (although reengagement is still possible in FY11).

Figure 1. Financial Impact of Lengthened Phase Out: IDA15 Arrangement vs. IDA14 Arrangement (SDR million)



Source: IDA Resource Mobilization Department, CFPIR

13. **Based on these assumptions, the updated financial impact assessment shows that post-conflict and re-engaging countries are projected to receive around 8 percent of total IDA allocations during the IDA15 period.** Figure 1 gives a visual illustration of the changes in estimated IDA15 resources. Of the total, post conflict countries are projected to receive about SDR 1959.4 million during IDA15, 50 percent higher than the nearly SDR 1307.8 million that this group of countries would have received during IDA15 had the IDA14 phasing out arrangement been kept in place. Similarly, the re-engaging countries are estimated to receive SDR 160.9 million compared to the SDR 78.5 million they would have received under the IDA14 arrangement.

14. **Table 2 provides the projected additional resources going to post conflict and re-engaging countries—both due to the longer phase out as well as new entrants-- during IDA15.** Overall, the FSP estimates for additional resources—both for the longer phasing out as well as new entrants—were validated (SDR970 million in FSP versus an updated figure of SDR1 billion). The updated analysis shows that the financial impact of the lengthened phase out is in the order of SDR 457 million for the post conflict countries, SDR 442 million for new entrants to the post conflict window, and SDR 102 million for the re-engaging countries.

Table 2. Updated Financial Impact of Lengthened Phase Out for Post Conflict and Re-engaging Countries, IDA15 (SDR million)

	Estimate in the <i>Fragile States Paper</i>	Updated Financial Impact Estimate as of FY10
Post conflict -Additional	860	898
Of which:		
Longer phase out	430	457
New entrants*	430	442
Reengaging - Additional	110	112
Of which:		
Longer phase out	20	20
New entrants**	90	92
Total	970	1010

Source: IDA Resource Mobilization Department, CFPIR

Note: * New entrants are: Cote d'Ivoire, Liberia, and Sudan (in FY11). Sudan is currently in non-accrual status and included only in order to maintain comparability with the original analysis.

** New entrants are: Togo and Zimbabwe (FY11). Zimbabwe is currently in non-accrual status and included only in order to maintain comparability with the original analysis.

15. **Table 3 provides the estimated IDA15 gross additional allocation by country due to the lengthened phasing out.** As can be seen from the table, projected IDA15 country allocations are projected to increase between 19-82 percent, after accounting for the increase in allocations due to larger IDA15 resources. With the exception of Timor Leste,¹³ the additions to the country allocations through the lengthened phase out are significant, thereby enabling IDA to support the development efforts of these countries better. The operational impact of these increased resources is discussed in the next section.

Table 3. Projected Additional Country Allocation due to the Lengthened Phase Out, IDA15 (SDR Million)*

	Estimated IDA15 Allocation		Percent Increase		
	Under the shorter IDA14 phase out	Under the lengthened IDA15 phase out	Total	Due to IDA15 envelope	Due to lengthened phase out
Post-conflict countries					
Afghanistan	239.2	358.0	50%	20%	30%
Angola	110.2	194.3	76%	20%	56%
Burundi	89.0	152.0	71%	20%	51%
Congo, Democratic Republic	381.9	721.8	89%	20%	69%
Congo, Republic of	19.5	39.4	102%	20%	82%
Eritrea	30.2	43.4	44%	20%	24%
Timor-Leste	7.1	8.8	24%	20%	4%
Re-engaging countries					
Central African Republic	15.9	22.9	45%	20%	25%
Haiti	32.6	45.2	39%	20%	19%

Source: IDA Resource Mobilization Department, CFPIR

Note: * Liberia, Cote d'Ivoire, and Togo excluded from the comparison above since they were new entrants into the window during IDA15.

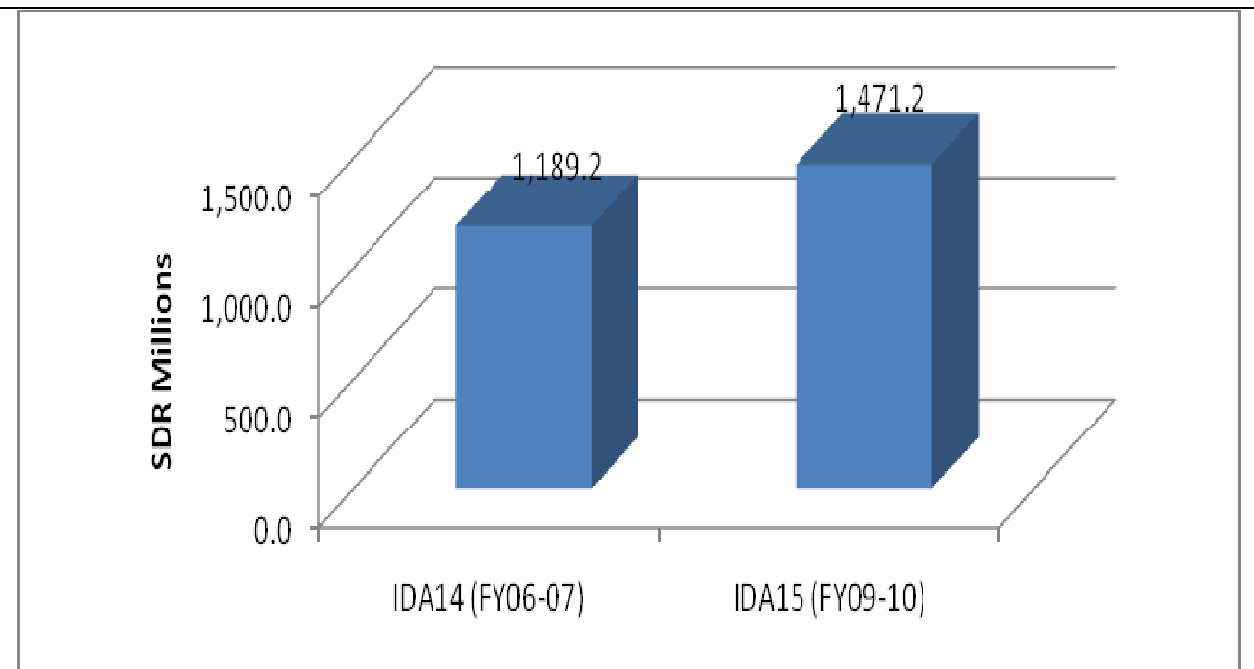
¹³ Timor Leste's projected increase is lower than for the other countries mainly because, as per the IDA15 agreement, Timor-Leste receives only the grant portion of its allocation, which is 60 percent of its PBA allocation. For more on this, please see "Additions to IDA Resources: Fifteenth Replenishment," p.18

B. Operational and Development Impact of the Lengthened Phase Out

Trends in lending commitments

16. **Reflecting the increased country allocations, IDA lending commitments in post-conflict and re-engaging countries have increased as well (Figure 2).** Since the FY11 lending pipeline is not yet available, and in order to ensure comparability, commitments in the first two years of IDA14 (FY06-07) are compared with commitments in the first two years of IDA15 (FY09-10), where the FY10 data shows actual commitments up to the end of September 2009 and projected pipeline data between October 2009-June 2010. The results show that IDA lending commitments have increased by about 24 percent in the first two years of IDA15 compared to the first two years of IDA14.

Figure 2 . IDA Commitments in Post-conflict and Re-engaging Countries, IDA14 vs. IDA15, SDR million



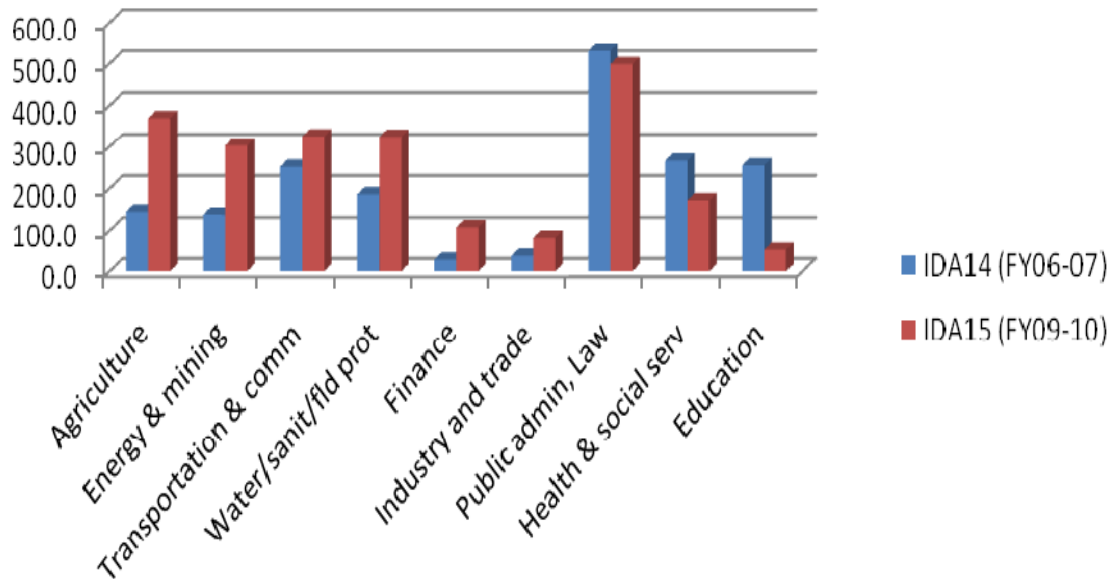
Source: IDA Resource Mobilization Department, CFPIR

17. **A further breakdown of lending commitments by sector shows that post-conflict and reengaging countries have increased their investment in agriculture, energy and mining, transportation, water and sanitation, and to a lesser extent finance and trade (Figure 3).**

The higher investments in agriculture and energy are probably linked to the efforts of countries to respond to the impact of the 2007-08 food and energy crises. The data also seems to suggest that the focus on dealing with the short term impact of these crises (including the global financial crisis) may have reduced their ability to invest more in education, health, and public administration and law, as there have been lower investments in these sectors. These trends, however, would need to be interpreted with caution as they may, given the country-based model, merely be a reflection of the nature of the planning and programming (e.g., lumpiness of

infrastructure projects) that exists at the country level rather than the priorities accorded to the sectors.

Figure 3 . IDA Commitments by Sector, Post-conflict and Re-engaging Countries, IDA14 vs. IDA15 (SDR Millions)



Source: World Bank Business Warehouse database

Box 2. IDA's Support to Haiti

Background: Haiti has experienced decades of political instability, poor governance and periodic civil conflict and violence interspersed with natural disasters – hurricanes and storms – that cost thousands of lives, displaced the population and contributed to land degradation. Reconstruction assistance was provided in the 1990s but political challenges persisted. A disputed election in 2000 paralyzed the legislature and hindered the government's decision-making process and program implementation. International aid tapered off and the government defaulted on much of its external debt obligations. President Jean-Bertrand Aristide resigned in 2004 and a transitional government was formed but the violence persisted.

Re-engagement Support: Elections held in 2006 ushered in a new Government. Following that, the Bank worked closely with other donors to reactivate financial assistance for Haiti. It coordinated a donor-led needs assessment and formulation of a recovery program – The Interim Cooperation Framework (ICF) – for 2004-2006, which subsequently resulted in financial support to Haiti of US\$1.9 billion during 2004-06, of which US\$1.2 billion came directly from bilateral donors and US\$700 million from multilateral agencies. IDA provided US\$ 228 million for the implementation of the Transitional Support Strategy (2004-2006) and the Interim Strategy Note (2007-2008). In addition, the Post-Conflict Fund and the LICUS Trust Fund provided grants of US\$11.6 million to help strengthen capacity and enable provision of community services, including basic vaccination, funding of essential drugs, school feeding and rehabilitation of rural water and sanitation facilities. The Bank also stepped up its analytical and advisory services (e.g., Agricultural Intensification and Rural Development Study, Public Expenditure and Financial Management Review and Country Economic Memorandum).

Achievements and Challenges: Haiti has restored relative macroeconomic stability: inflation fell from 38 percent to 12 percent between FY03 and FY06; the fiscal deficit (with grants) was reduced from 2.5 percent of GDP in FY2004 to a surplus of 0.2 percent of GDP in FY2007; and GDP growth reached 3.2 percent in 2007. However, Haiti continues to face major challenges: poverty levels remain high (with two thirds of the population still dependent on subsistence farming and with little access to basic public infrastructure and services); major social indicators, such as primary school enrolment and health outcomes have not shown significant improvements (with the exception of HIV/AIDS); and land degradation and soil erosion have increased pressure on the land forcing many young people to migrate to urban areas in search of employment. IEG evaluations of IDA support note that the capability of maintaining law and order will be critical for progress, and that donors (including IDA) will need to maintain support for investment and building of capacity.

Recent IDA support: Haiti's potential for sustaining recovery in 2008 and 2009 was hampered by external shocks, including devastating tropical storms and increases in world prices for oil and food which caused widespread hardships and triggered political discontent and violent protests. IDA's recent support through the lengthened phase out (estimated at around SDR 7 million for IDA15) has supplemented critical operations such as the Community Driven Development Project, the Emergency School Reconstruction Project, Strengthening of Agriculture Public Services Project, and the additional financing for the Electricity Loss Reduction Project. These operations have supported investment, capacity building, and the restoration of basic public services. In addition to the lengthened phase out, Haiti has also received US\$40 million in disaster-related assistance under the IDA15 disaster-related exceptional allocation.

Source: World Bank (2007) Haiti Economic Governance, IEG Evaluation; and World Bank (2007): Haiti Country Assistance Evaluation

18. **In addition to increased financing, IDA has continued to support these countries in knowledge work, donor coordination, and bringing about greater strategic coherence in development assistance.** Box 2 provides an example of the role that IDA has continued to play

in Haiti, a country with a long history of political instability, poor governance and periodic civil conflict and violence. IDA's ability to provide a platform –both in terms of generating knowledge and donor coordination-- does not mean that it systematically plays a leading role among donors in every sector or country, but it does mean that its work is essential for harnessing the effectiveness of other sources of aid—both bilateral and multilateral.

Absorption and trends in disbursements

19. **Financial absorption can be approximated by the pace of disbursements on credit and grants to these countries.** Table 4 shows the portfolio size and the share of undisbursed balance in total portfolio for all post conflict and re-engaging countries during FY06-09. For this period, the average undisbursed balance as percent of total portfolio size remained at 59 percent for post-conflict and re-engaging countries, slightly lower than the average for all IDA countries (which was 65 percent). Disbursements in the Democratic Republic of Congo, the largest country in the group, have significantly improved; while in Afghanistan, the second largest portfolio, they have slightly improved or held steady. On the other hand, some of the small countries such as Togo, CAR, and Burundi continue to have relatively high undisbursed balances.

Table 4. Trends in Share of Undisbursed Balance in Total Portfolio in Post-Conflict and Re-engaging Countries

Country	Project Portfolio				Undisbursed as % of Project Portfolio				Average FY06-09
	FY06	FY07	FY08	FY09	FY06	FY07	FY08	FY09	
Afghanistan	873	1,014	871	1,018	57%	63%	69%	58%	62%
Angola	176	278	278	277	65%	65%	58%	75%	66%
Burundi	267	312	321	337	61%	50%	62%	70%	61%
Congo, DR	1,407	1,737	1,956	2,310	64%	60%	54%	45%	56%
Congo, Rep.	157	122	162	141	38%	55%	59%	64%	54%
Cote d'Ivoire	0	0	247	770	NA	NA	98%	45%	72%
Eritrea	254	214	239	179	54%	55%	48%	48%	51%
Liberia	30	60	108	180	101%	89%	72%	63%	81%
Timor-Leste	7	16	17	19	101%	93%	81%	52%	82%
Central African Republic	0	117	43	51	NA	35%	100%	71%	69%
Haiti	70	138	167	207	93%	93%	77%	66%	82%
Togo	0	0	17	74	NA	NA	101%	98%	100%
PC and Reengaging Countries	3,242	4,008	4,426	5,563	61%	61%	62%	53%	59%
All IDA Countries	39,778	43,776	48,145	55,982	63%	66%	68%	63%	65%

Source: World Bank Business Warehouse database

20. **While a certain amount of fluctuation is inevitable, the data seem to indicate that absorption in these countries is no worse than the average for all IDA countries** Overall, the average share of DPOs in total annual commitment during FY06-09 was slightly higher at 29 percent for post-conflict and reengaging countries, compared to 23 percent for all IDA countries. However, excluding arrears clearance operations which are delivered in the form of DPOs, the share of DPOs in these countries is much more modest at 18 percent and lower than the average for IDA countries. Within the post conflict group, disbursement rates have been relatively high for some countries (such as Cote d'Ivoire and Central African Republic), in part because these countries have had a high share of development policy operations (DPOs) in their total annual

commitments (Table 5). In other countries such as the Democratic Republic of Congo and Liberia, the share of DPOs is not particularly high, but there has been a steady improvement in disbursements through investment operations.

Table 5. Percent Share of DPOs in Total Annual Commitments, Post Conflict and Reengaging Countries, FY06-09

Country	Lending Instrument	IDA14			IDA15	Average
		FY06	FY07	FY08	FY09	
Afghanistan	DPL	33%	26%	0%	18%	19%
	Investment	67%	74%	100%	82%	
Angola	DPL	NA	0%	NA	0%	0%
	Investment	NA	100%	NA	100%	
Burundi	DPL	0%	50%	0%	26%	19%
	Investment	100%	50%	100%	74%	
Congo, DR	DPL	25%	0%	0%	0%	6%
	Investment	75%	100%	100%	100%	
Congo, Republic of	DPL	NA	0%	0%	0%	0%
	Investment	NA	100%	100%	100%	
Cote d'Ivoire 1/	DPL	NA	NA	55%	75%	65%
	Investment	NA	NA	45%	25%	
Eritrea	DPL	NA	NA	0%	NA	0%
	Investment	NA	NA	100%	NA	
Liberia 1/	DPL	0%	0%	90%	6%	24%
	Investment	100%	100%	10%	94%	
Timor-Leste	DPL	7%	0%	0%	0%	2%
	Investment	93%	100%	100%	100%	
Central African Republic 2/	DPL	NA	82%	100%	24%	69%
	Investment	NA	18%	0%	76%	
Haiti	DPL	0%	34%	0%	0%	8%
	Investment	100%	66%	100%	100%	
Togo 1/	DPL	NA	NA	91%	35%	63%
	Investment	NA	NA	9%	65%	
Post Conflict and Reengaging Countries	DPL	23%	22%	49%	21%	29%
	Investment	77%	78%	51%	79%	
Overall IDA	DPL	26%	23%	24%	21%	23%
	Investment	74%	77%	76%	79%	

Source: World Bank Business Warehouse database.

Note:

1/ Cote d'Ivoire, Liberia and Togo had arrears clearance in FY08. The share of DPL excluding arrears clearance amounts was, respectively, 12 percent, 41 percent, and 62 percent.

2/ Central African Republic cleared its arrears with IDA in FY07. The share of DPL excluding arrears in FY07 was 51 percent.

Portfolio quality

21. **A review of the portfolio quality in recent years shows that while post conflict and re-engaging countries have a share of actual problem projects comparable to the IDA average, their total percent of projects at risk is considerably higher than the average for IDA (Annex 1).** The percent of actual problem projects in post-conflict and re-engaging countries (14.3 percent) has been comparable to the total IDA average (14.4 percent); however, the percent of projects at risk, defined as including both actual and potential problem projects, has been much higher in post conflict and re-engaging countries (around 40 percent) than that of the total IDA average (around 20 percent). This could be, in part, attributable to consideration given to country circumstances rather than project specific issues.¹⁴ Within the portfolio, there are several examples of successful projects that are having concrete impact on the ground. Box 3 gives an example of how and where the additional IDA funds, including through the lengthened phase out, have been put to use in Central African Republic.

Box 3. How Additional IDA Funds are used in the Central African Republic

Background. The Central African Republic (CAR) remains one of the least developed countries in the world (ranking 178th out of 179 on the 2008 Human Development Index). Its political and security situation remains fragile, with political dialogue and the peace process still ongoing. Overall official development assistance has increased since 2006 but the volume of external assistance remains insufficient to maintain stability and attain many of the MDGs. CAR's challenges have been further magnified by the impacts of the global economic crisis on the country's growth, taxes, and export revenues.

Since 2008, both the Bank and the AfDB have frontloaded CAR's country allocations under IDA15 and ADF11, respectively, in order to respond to the impact of food, fuel, and financial crises. The additional financing to CAR provided through the lengthened phase out, estimated at around SDR 15 million for IDA15, has played an instrumental role in responding to the impact of the crises, in particular the energy crisis ("Power Emergency Response Project"). It has also facilitated the provision of a safety net for the most vulnerable groups ("Support to Vulnerable Groups Community Development Project"). However the high demand for IDA resources, coupled with substantial frontloading, has already resulted in resource constraints for the outer years of IDA15. Critical projects which could be financed through higher IDA resources to CAR include:

Additional Financing for Food Response Project – Agriculture. In the rural sector, 67.2 percent of Central Africans live below the poverty line, mainly because of low agricultural productivity. For the first time in CAR's recent history, certain areas of the country (e.g., Carnot), otherwise well endowed for agricultural production, are experiencing severe hunger problems. Increasing world food prices threaten to further undermine CAR's recent progress towards the MDGs by reducing household and national food security and macroeconomic stability. The coverage and scope of rural interventions, including investment and capacity development for producers in order to diversify agricultural production, can be strengthened with additional resources.

Health project. In the health sector, CAR's human development indicators are well below the Sub-Saharan average, and health service funding and provision are very poor. Life expectancy is 39 years and about 15 percent of children are underweight at birth and 19 percent are severely stunted. Additional funds would allow for a new WB-financed health project to commence earlier than the forecast date of FY12.

¹⁴ A project is classified as a project- at- risk if at least 3 of 12 potential risk flags are raised. The high share of percent of projects at risk (relative to the actual problem projects) in these countries is explained by the fact that risk flags include country characteristics such as (i) "country environment", defined as a weak policy environment with a CPIA score of less than 3.0; and (ii) "country record", defined as a country where unsatisfactory projects represent more than 40 percent of total commitments over the previous five years. Most post-conflict and re-engaging countries are tagged for these country risk flags.

III. CONCLUSIONS AND ISSUES GOING FORWARD

22. **This review has shown that the IDA financing system put in place to support post-conflict and reengaging countries—a subset of countries within the broader group of fragile states—has functioned well:** country allocations have been higher because of the lengthened phase out; the countries are absorbing the additional funds relatively well (disbursements are as good as in other IDA countries); and, perhaps most importantly, the additional funds have allowed the countries to respond to various emergencies and crisis, in particular the recent food, fuel, and financial crises.
23. **The updated financial impact assessment shows that post-conflict and re-engaging countries are projected to receive around 8 percent of total IDA allocations during the IDA15 period.** Of this, post conflict countries are projected to receive about SDR 1959.4 million during IDA15, 50 percent higher than the nearly SDR 1307.8 million that this group of countries would have received during IDA15 had the IDA14 phasing out arrangement been kept in place. Similarly, re-engaging countries are estimated to receive SDR 160.9 million (or 102 percent higher) compared to the SDR 78.5 million they would have received under the IDA14 arrangement of a shorter phasing out.
24. **Reflecting the increased country allocations, IDA lending commitments in post-conflict and re-engaging countries have increased by 24 percent in the first two years of IDA15 (FY09-10) compared to the first two years of IDA14 (FY06-07).** A further breakdown of lending commitments by sector shows that these countries have increased their investment in agriculture, energy and mining, transportation, water and sanitation, and to a lesser extent, finance and trade. In addition to increased financing, IDA has continued to support them in knowledge work, donor coordination, and bringing about greater strategic coherence in development assistance.
25. **Recent trends in absorption—as measured by the percent of undisbursed balances in total country portfolio--suggest that absorption in post-conflict and re-engaging countries is no worse than the average for all IDA countries.** Within the post conflict group, disbursement rates have been relatively high in the large countries (such as DRC and Afghanistan), in part because these countries have had a high share of budget support in their total annual commitments (the average share of DPOs in total commitment is 29 percent for post-conflict and reengaging countries, and 22 percent of all other IDA countries). In contrast, some of the small post conflict and reengaging countries with young portfolios (e.g., Togo, Liberia, and Haiti) not only have lower disbursement rates than the IDA average but perhaps among the lowest disbursement ratios (highest undisbursed balances) of all IDA countries.
26. **Yet, given the daunting development challenges post-conflict and re-engaging countries are facing, there is obviously a need to continue to seek better operational and financial arrangements to support them.** In addition to their ongoing development challenges, fragile states (including those benefiting from the exceptional post-conflict and re-engaging allocations) are dealing with the impact of the global financial crisis, which has increased their

core development financing gap. A recent paper¹⁵ estimates that low income countries will face a core financing shortfall of \$11.6 billion, of which 58 percent relates to fragile states. Many fragile states are heavily dependent on commodity exports, remittances, ODA, and emergency and security assistance, all of which have come under intense pressure as a result of the recent food and energy crises of 2007-2008 as well as the current global economic crisis. Given the increased need, IDA as well as other development partners will need to seek better ways to support these countries going forward.

27. Among immediate steps that IDA management is proposing to better support a good number of post-conflict and reengaging countries (e.g. Haiti, Central African Republic) is the elimination of MDRI netting out, a proposal that is being tabled for IDA Deputies' decision during the IDA15 Mid-Term Review.¹⁶ Countries that have reached the HIPC completion point benefit from the Multilateral Debt Relief Initiative (MDRI). However, under the MDRI agreement, a country's debt service forgone is deducted from its annual gross PBA allocation (also known as MDRI netting out), which has led to falling "new" IDA allocations for some IDA countries. Management is proposing to eliminate the MDRI netting out as a way to ensure higher IDA resource flows to the countries most affected by the netting out. Nine of the 15 most affected countries are fragile states, and four of them (Haiti, Central African Republic, Togo, and Cote d'Ivoire) are post-conflict and reengaging countries. Another step that management is proposing is the IDA Crisis Response Window (ICRW),¹⁷ a window that will support those low income countries that are most vulnerable to the impact of the global crisis in a manner that is complementary to IDA's performance based allocation system.

28. Over the medium term, important trade-offs are at stake in channeling more IDA resources to fragile states, including those currently benefiting from exceptional post-conflict and reengagement allocations. The recent IEG evaluation of the CPIA¹⁸ and IDA's own research on portfolio points to a lower probability of successful project outcomes at lower CPIA levels, where fragile states are less likely to yield less satisfactory project outcomes than the non-fragile states. In the medium term, IDA-financed projects have better prospects of achieving results in non-fragile states than in fragile states. Given a limited IDA envelope, this would imply that more financing to fragile states would mean not only less resources for other non-fragile IDA countries, but perhaps less development results overall, all else being equal.

29. Despite these higher risks in achieving project outcomes, there is a strong rationale for IDA's continued engagement with these countries. The impact of well-designed and supervised aid programs can potentially be very high, not only because these countries start from a very low level of development outcomes, but also because a successful intervention in a fragile country may have positive regional spillovers on neighboring countries. Furthermore, the recent external panel that reviewed the Post Conflict Performance Indicators (PCPI) has suggested that the performance based allocation (and the CPIA on which it is based) may be too backward

¹⁵ See "Protecting Progress: The Challenge Facing Low Income Countries in the Global Recession", Background Paper Prepared for the G-20 Leaders' Meeting, September 2009.

¹⁶ See "Options for Reducing the Impact of MDRI Netting Out on New IDA Country Allocations", IDA15 Mid-term Review Paper.

¹⁷ See "Proposal for IDA Crisis Response Facility", IDA15 Mid-term Review Paper.

¹⁸ See, Independent Evaluation Group, 2009, *The World Bank's Country Policy and Institutional Assessment (CPIA) - An Evaluation*, September.

looking to enable IDA to support a rapidly evolving country situation where there may be marked and sustained improvements in policies and leadership. The panel's recommendation has been to revisit the special allocation criteria to evaluate whether the criteria for exceptional allocations can be expanded to include such countries.

30. **In light of these considerations, future efforts in the context of IDA16, may explore a number of outstanding issues with respect to the financing arrangements for fragile states.** Among such issues are: (i) revisiting the eligibility criteria for post-conflict and re-engagement countries to see if they can be made more flexible and inclusive of other countries that may need exceptional assistance; (ii) continuing to assess the experience with phasing out and graduation from the special window in order to modify the rules as warranted. With the concurrence of IDA Deputies, the Bank would pursue these issues in the context of IDA16 replenishment discussions.

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ANNEX 1. PERCENT OF ACTUAL PROBLEM PROJECTS AND PROJECTS AT RISK IN POST CONFLICT AND RE-ENGAGING COUNTRIES, FY08-FY10

Country	No. of active projects			% Actual problem projects 1/			% Projects at risk 2/		
	FY2008	FY2009	FY2010 3/	FY2008	FY2009	FY2010 3/	FY2008	FY2009	FY2010 3/
Post-conflict									
Afghanistan	22	23	22	18.2	17.4	18.2	27.3	30.4	36.4
Angola	6	6	6	0.0	33.3	33.3	33.3	83.3	83.3
Burundi	9	10	10	0.0	10.0	10.0	11.1	20.0	20.0
Congo, Democratic Republic of	12	15	15	8.3	20.0	13.3	58.3	46.7	73.3
Congo, Republic of	6	5	5	33.3	20.0	20.0	50.0	20.0	20.0
Cote d'Ivoire	4	9	9	25.0	0.0	0.0	25.0	77.8	77.8
Eritrea	6	5	5	16.7	40.0	60.0	50.0	100.0	100.0
Liberia	5	7	7	0.0	14.3	14.3	20.0	28.6	28.6
Timor-Leste	4	5	5	25.0	0.0	0.0	25.0	80.0	80.0
Re-engaging									
Central African Republic	3	4	4	0.0	0.0	0.0	66.7	75.0	100.0
Haiti	12	16	14	8.3	6.3	7.1	33.3	56.3	50.0
Togo	1	4	3	0.0	0.0	0.0	0.0	25.0	33.3
Post-conflict and re-engaging countries 4/									
	90	109	105	12.2	13.8	14.3	34.4	48.6	54.3
All IDA countries	846	868	863	10.5	14.5	14.4	18.3	23.8	26.0

Source: World Bank Business Warehouse database.

1/ Actual problem projects are those rated as unsatisfactory in Development Objectives or Implementation Progress in project supervision.

2/ Including actual and potential problem projects.

3/ Data as of September 2009.

4/ Performance ratings are weighted by the number of active projects.